CANADIAN BREWERIES LIMITED

ANNUAL REPORT

1973

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Les actionnaires qui préféreraient recevoir leur rapport en français sont priés d'en aviser le Secrétaire des Brasseries Canadiennes Limitée.

Directors

JOEL W. ALDRED	President Joel W. Aldred Limited Toronto, Ontario
E. NORRIS DAVIS	President Carling Brewing Company Incorporated Waltham, Massachusetts
JOHN LADD DEAN	Partner Hahn, Loeser, Freedheim, Dean & Wellman Cleveland, Ohio
MAJOR GENERAL SIR FRANCIS DE GUINGAND, K.B.E., C.B., D.S.O.	International Director of The Rothmans Group of Companies London, England
JOHN H. DEVLIN	Chairman and Chief Executive Officer Canadian Breweries Limited Toronto, Ontario
ROBERT H. HAWKES, Q.C.	President Rothmans of Pall Mall Canada Limited Toronto, Ontario
A. SEARLE LEACH	Chairman Federal Industries Ltd. Winnipeg, Manitoba
ANTHON W. NIELSEN	Chairman United Breweries Limited Copenhagen, Denmark
RENAULT ST-LAURENT, Q.C., LL.D.	Partner St-Laurent, Monast, Desmeules, Walters & Vallières Quebec City, P.Q.
JOHN E. SHAFFNER	Retired Executive
GEORGE C. SOLOMON	President Western Tractor Limited Regina, Saskatchewan
WILMAT TENNYSON	President Canadian Breweries Limited Toronto, Ontario
H. ALAN WALKER	Chairman Bass Charrington Limited London, England
SHELDON S WILSON	Industrialist Beverly Hills, California

Officers

Chairman of the Board and Chief Executive Officer	JOHN H. DEVLIN
President	WILMAT TENNYSON
Executive Vice President	GEORGE A. D. STEWART
Vice President Finance and Treasurer	RALPH L. BEATTY
Vice President Administration	JAN H. de LANGE
Vice President Operations	R. ROSS SERVICE
Vice President Corporate and Consumer Affairs	W. RICHARD FOSTER
Vice President Research and Development	DANIEL DI IANNI
Secretary	COLIN C. HENDERSON
Comptroller	JOHN R. BARNETT

Directors' Report

Consolidated Results

Consolidated earnings for the year ended June 30, 1973, before including extraordinary items, were $6,225,000 compared to $8,630,000 for 1972. After including extraordinary items, earnings were $10,020,000 against $6,625,000 for 1972. Earnings per common share, after providing for preference dividends, were:

	1973	*1972*
Before extraordinary items	18.7 cents	29.7 cents
After extraordinary items	36.1 cents	20.5 cents

The 1973 consolidated results include Growers' Wine Company Limited for the five month period from February 1, 1973, the effective date of acquisition of this new subsidiary.

CONSOLIDATED RESULTS FINANCIAL YEARS ENDED	JUNE 30 1973	JUNE 30 1972	INCREASE (DECREASE)
Sales	$412,603,000	$404,779,000	1.9%
Net Earnings Before Extraordinary Items	$6,225,000	$8,630,000	(27.9%)
Net Earnings	$10,020,000	$6,625,000	51.2%
Per Common Share	36.1¢	20.5¢	76.1%

Consolidated sales for 1973 amounted to $412,603,000, an increase of 1.9 percent over 1972 sales of $404,779,000. Sales increases in Canadian wine operations and in brewing operations in the Republic of Ireland were partially offset by beer sales decreases in Canada and in the United States.

Operating earnings from the Company's beverage operations declined as a result of beer sales decreases in the United States and Canada, and also because of generally increased costs in 1973 for materials, supplies, wages and expenses. The prices of grain ingredients used in beer increased substantially since last year due to major increases in world grain prices. 1973 costs also reflect the heavy investment made for the introduction of Tuborg in the United States.

Earnings from investments and other income increased substantially in 1973 as compared to 1972 due primarily to a net gain of $2,047,000 on translation of foreign exchange investments and accounts.

Extraordinary items recorded in 1973, which resulted in a net credit to earnings of $3,795,000, consisted of a profit of $3,949,000 recorded on the sale of land in Toronto minus a provision of $154,000 for costs relating to the closing of the Atlanta brewery of Carling Brewing Company Incorporated.

Brewing Operations—Canada

Results of Canadian brewing operations for the 1973 fiscal year declined from 1972 levels.

BREWING OPERATIONS—CANADA			
FINANCIAL YEARS ENDED	JUNE 30 1973	JUNE 30 1972	INCREASE (DECREASE)
Sales (barrels)	4,335,000	4,549,000	(4.7%)
Sales	$233,209,000	$234,412,000	(.5%)
Net Earnings	$5,953,000	$7,112,000	(16.3%)
Earnings per Barrel	$1.37	$1.56	(12.2%)

Total industry beer sales in Canada for the fiscal year increased approximately 5 percent over the same period in 1972. This was a net increase, however, since sales of beer in bottles and cans increased 7.5 percent while draught beer, continuing a declining trend, decreased approximately 8 percent. The decrease in draught beer sales is due primarily to comparative pricing at the retail level. Since your Company holds a larger share of the Canadian draught beer market than of the packaged beer market, it has been affected to a greater degree by declining draught beer sales.

In recent years Canadian Breweries Limited has suffered declines in some of its older brands in some markets but there are indications, on the basis of current sales patterns, that the declines have been arrested. During the year, Kronenbräu 1308 was introduced in British Columbia and Carlsberg in Alberta and, while advertising and promotional support was limited by government restrictions in these provinces, both new brands have done well.

While your Company continues to use conventional forms of advertising and promotion, a substantial part of the funds allocated for marketing the Company's products in Canada has been devoted to a number of major promotional programs which have been developed to provide a public service and at the same time assist efforts to increase sales. All marketing costs of these promotions have been written off as incurred in accordance with the Company's policy.

Earnings for the year from Canadian brewing operations were adversely affected by the major cost increases for grain ingredients as well as increases for most other materials and supplies and for wages. Unlike most other products in Canada, beer selling price increases have been infrequent and modest. With the exception of Quebec, beer selling prices are subject to approval by the provincial Governments. Increases were obtained effective January 1, 1973 in Quebec and Alberta and while these increases were helpful, they were not sufficient to offset the effect of rising costs.

While every effort is being made to improve the Company's earnings position through increased sales, a continuing review of costs is also being made and a number of cost reduction programs were put into effect during the year. A small plant in Calgary was closed at the end of the fiscal year and this property has now been sold. Production has been transferred to the Company's

larger, more efficient brewery in Calgary. The Company has two plants in Vancouver and beer production is to be consolidated in the larger more efficient plant.

Changes in design of packaging have been made which are providing significant cost savings while still maintaining the good quality and appearance of our products.

Brewing Operations—United States

Several factors led to the substantial operating loss in Carling Brewing Company, your Company's brewing operation in the United States. These include the cost of launching Tuborg, unprecedented cost increases for raw materials, and highly competitive pricing in the marketplace.

BREWING OPERATIONS—U.S.A. FINANCIAL YEARS ENDED	JUNE 30 1973	JUNE 30 1972	INCREASE (DECREASE)
Sales (barrels)	3,837,000	4,075,000	(5.8%)
Sales	$143,905,000	$150,969,000	(4.7%)
Net Loss	$4,593,000	$772,000	
Loss per Barrel	$1.20	19¢	

A sizeable investment was made in marketing Tuborg which was introduced at premium price in 32 major markets in October 1972. Consumer acceptance of the brand was positive, particularly on the East and West coasts of the U.S.A., and in April distribution of the brand was extended to include the greater New York City area. Despite severe competition, the brand continues to show strength, and management is optimistic about the long-term prospects for the Tuborg brand.

While unit marketing costs on Tuborg will be lower this year, the costs of consolidating the position of the brand in the marketplace will continue to be heavy, and profit contribution will be minimal.

The North American brewing industry is presently faced with the highest costs for agricultural products in its history. The world shortage of grain has created unprecedented demand and subsequent high prices. Costs of other supplies, such as packaging materials, have increased substantially, and labour costs are on the rise. At the same time, government price controls and competitive pressure in the market have prevented the brewing companies from passing on these increased costs. Since the cost/price squeeze is affecting all brewers, it is expected that some relief will be obtained this year through increased prices.

In early July, Carling Brewing Company announced the closure of its brewery in Atlanta, Georgia, and plans to expand the size of its brewery in Baltimore, Maryland. This decision was taken due to the rapidly rising costs and severe price competition, which made it uneconomic to continue production in a low-

capacity plant. The Baltimore brewery will be increased to approximately 2 million barrel capacity.

Brewing Operations—Republic of Ireland

Beamish & Crawford Limited, the Company's subsidiary in the Republic of Ireland, again reported substantial increases in sales and earnings.

BREWING OPERATIONS—IRELAND			
FINANCIAL YEARS ENDED	JUNE 30 1973	JUNE 30 1972	INCREASE (DECREASE)
Sales (barrels)	230,000	195,000	17.9%
Sales	$15,214,000	$12,819,000	18.7%
Net Earnings	$499,000	$360,000	38.6%
Earnings per Barrel	$2.17	$1.85	17.3%

To meet increasing sales demands, a major expansion of production facilities in Cork was undertaken in 1972 and 1973. Additional work will be completed in 1974. The distribution system has also been improved through additional warehousing and sales depots to better serve expanding markets.

The main product sold in the Irish beer market is stout (68 percent). In 1973, the trend away from stout to ale and lager continued with ale now 24 percent and lager 8 percent. Of the total volume sold, 95 percent is consumed in pubs and lounges which contributes to the fact that almost 75 percent of total sales are draught beer and only 25 percent in bottles.

While its sales of stout are substantial, the Beamish & Crawford Limited sales increases continue to be achieved mainly in the expanding ale and lager markets.

Beamish & Crawford Limited, which previously had imported Carlsberg lager from Denmark, began production of this brand during the year at its plant in Cork.

The substantial improvement in earnings for 1973 was achieved despite unusually high increases in costs of certain raw materials plus increases in wage rates. While a small increase in selling price was obtained during the year, operating economies obtained through the expanded facilities also contributed to reduced unit costs.

International Division

Carling Black Label beer is sold under franchise agreements in the United Kingdom and southern Africa. Royalty income on franchise sales for 1973 amounted to $747,000 an increase of 31 percent over 1972.

Wine Operations

Canadian Breweries Limited first entered the Canadian wine business on February 29, 1972 through the purchase of 75 percent of the outstanding shares of Gramercy Holdings Limited. The name of the company has since been changed to Jordan Valley Wines Limited.

Effective February 1, 1973, your Company increased its participation in the growing Canadian wine industry with the purchase of all the outstanding shares of Growers' Wine Company Limited for $10,391,000 cash.

With the acquisition of Growers' your Company now has 7 wineries located in the following provinces—Ontario (2), Manitoba, Saskatchewan, Alberta and British Columbia (2) and is the largest producer of wine in Canada.

WINE OPERATIONS			
FINANCIAL YEARS ENDED	JUNE 30 1973	JUNE 30 1972	INCREASE (DECREASE)
Sales (gallons)	3,907,000	1,103,000	
Sales	$18,689,000	$4,845,000	
Net Earnings	$515,000	$322,000	59.9%
Earnings per Gallon	13.2¢	29.2¢	(54.8%)

Earnings did not increase proportionately with sales due to a number of factors including higher costs for materials, supplies and expenses but primarily due to costs of combining operations, rationalizing staffing and operations, adjustments to production and packaging and other measures taken to effect re-organization and maximize future earnings.

Sales of Canadian wines between 1968 and 1972 have increased from 9,133,000 gallons to 15,626,000 gallons, an increase of 71 percent. Your Company is now well positioned to compete in this rapidly expanding industry.

Oil and Gas Operations

In 1972 your Company entered the oil and gas industry with the purchase of Star Oil & Gas Ltd. and certain oil properties in Alaska. At June 30, 1973, the Company's oil and gas properties had a net book value of $13,391,000. The present value is $20,255,000 based on a report by James A. Lewis Engineering Co. Ltd., petroleum reservoir analysts. This report, dated June 30, 1973, appraised all Star properties including the Alaska lands, with the producing properties' future income discounted at 9 percent.

Sales for 1973 from producing oil and gas properties totalled $1,586,000 and earnings were $224,000. Sales of $1,734,000 and earnings of $263,000 for the 14 month period ended June 30, 1972 were included in the 1972 consolidated earnings statement.

Star Oil participated in the drilling of 17 wells during the year and of these, 9 gas wells and 3 oil wells were successful and 5 were abandoned. At June 30, 1973 drilling was in progress on two wells, one of which has since proven successful as an oil well.

At June 30, 1973, Star held net proven reserves of 5,250,000 barrels of crude oil and natural gas liquids and 70.9 billion cubic feet of natural gas. Net probable additional reserves amounted to

1,611,000 barrels of oil and 29.3 billion cubic feet of natural gas. These net reserves represent the net participating equity of Star in the total proven and probable additional reserves for each producing property in which it held a percentage share interest, less provision for royalties to others.

At the end of the year, Star held interests in approximately 4,300,000 gross acres of undeveloped properties, located in Alberta, Saskatchewan, British Columbia, the Arctic Islands and the East Coast off-shore.

Investments and Other Income

Funds not immediately required in the business are invested in short term securities. Income is also received from a number of mortgages and other non-current investments as well as from sundry properties.

Income for 1973 from investments and other income items amounted to $8,859,000 compared to $5,681,000 in 1972. After provision for income taxes, earnings for 1973 amounted to $4,374,000 (1972—$2,312,000). The increase in income is accounted for primarily by gains arising from translation of foreign currency items. The total translation gain in 1973 amounted to $3,673,000 (1972—$283,000) and of this amount, $3,265,000 (1972—$813,000) related to short term investments. After provision for taxes, the 1973 translation gain amounted to $2,047,000.

When the Company's United Kingdom investments were disposed of in 1971, a portion of the proceeds was invested in Europe. Some funds were drawn back as part of the financing of Canadian acquisitions, but a substantial portion remained, invested primarily in marketable federal and municipal bonds and debentures. At June 30, 1973, translation of these European investments, which were mainly in Swiss francs and German marks, to Canadian dollars, resulted in the substantial gain.

Balance Sheet

The assets and liabilities of Growers' Wine Company Limited are included in the consolidated balance sheet at June 30, 1973 and are a major contributing factor to increases in balance sheet amounts (especially inventories and property, plant and equipment) over 1972.

At June 30, 1973, working capital amounted to $58,045,000 with a ratio of current assets to current liabilities of 1.95 to 1.

The decrease of $10,821,000 in working capital during the year was partially accounted for by the acquisition of Growers' Wine Company Limited. Expenditures on property, plant and equipment for the year amounted to $14,821,000, the major items being additions and replacements to Canadian vehicle fleet—$2,300,000, production equipment replacements and improvements in Montreal plant—$1,300,000, expansion of the Beamish

& Crawford plant in Cork—$1,700,000, winery expansion and improvements—$1,300,000 and additional oil and gas properties of $1,300,000.

Capital expenditures planned for the 1974 fiscal year are estimated at $16,000,000, the major items being an expansion of the Baltimore plant, the first phase of an expansion of the Bennett Brewing plant in Newfoundland, increases in capacity and other capital requirements in wineries and further development in the oil and gas operations.

While none of the Series A or Series B preference shares were redeemed during the year, 3,000 Series B shares were purchased on the open market, at prevailing prices, for cancellation.

Industrial Relations

The Company has enjoyed a good working relationship with its various Union locals during the year. A new three-year agreement was signed in British Columbia effective January 1, 1973 while other Canadian plants continued under multi-year contracts. Agreements covering employees in Ontario, Quebec and Alberta plant and distribution operations will be renewed in the present fiscal year.

New agreements were negotiated during the year covering employees at the Natick and Baltimore plants of Carling Brewing Company Incorporated. All United States plants are now covered by agreements expiring in 1976.

General

The Forty-Fourth Annual Meeting of your Company will be held at the Hyatt Regency Hotel in Toronto, Ontario on November 1, 1973. The formal notice of meeting and proxy form are enclosed with this report.

At a General Meeting to be held in conjunction with the Annual Meeting, shareholders will be asked to confirm a special resolution of the Company amending the articles of incorporation to change its name from Canadian Breweries Limited to Carling O'Keefe Limited—Carling O'Keefe Limitée. In the opinion of your Directors and management, this change will provide a direct relationship between the company name and its major products and will simplify many aspects of the Company's marketing and promotional activities.

On behalf of the Directors I wish to thank the shareholders for their continued support and to express appreciation to the Company's employees for their loyal and conscientious efforts during the year.

John H. Devlin

Chairman of the Board and
Chief Executive Officer

CANADIAN BREWERIES LIMITED

AND SUBSIDIARY COMPANIES

(Incorporated under the laws of Ontario)

Consolidated Statement of Earnings

(in thousands of dollars)

	Year Ended June 30	
	1973	1972
Income		
Sales	$412,603	$404,779
Excise and sales taxes	148,589	147,905
	264,014	256,874
Investment and other income (Note 1)	8,859	5,681
	272,873	262,555
Costs		
Raw materials and manufacturing expenses	163,058	156,359
Marketing and distribution expenses	79,173	69,546
Administrative and general expenses	18,650	17,802
Interest, including interest on long term debt of $2,036 (1972—$2,212)	3,374	2,938
	264,255	246,645
Earnings before income taxes and extraordinary items	8,618	15,910
Income taxes (Note 4)		
Current	3,343	6,149
Deferred	(950)	1,131
	2,393	7,280
	6,225	8,630
Extraordinary items (Note 5)	3,795	(2,005)
EARNINGS FOR THE YEAR	$ 10,020	$ 6,625
Earnings per common share		
Before extraordinary items	18.7¢	29.7¢
For the year	36.1¢	20.5¢

CANADIAN BREWERIES LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year Ended June 30	
	1973	1972
Balance at beginning of year	$ 40,221	$ 44,415
Earnings for the year	10,020	6,625
Excess of par value over cost of preference shares purchased for cancellation	43	57
	50,284	51,097
Dividends paid		
Preference—		
$2.20 per Series A share and $2.65 per Series B share	2,164	2,171
Common—		
10¢ per share (1972—40¢)	2,176	8,705
	4,340	10,876
Balance at end of year	$ 45,944	$ 40,221

Analysis of Changes in Working Capital

(in thousands of dollars)

	Year Ended June 30	
	1973	1972
Increase (decrease) in current assets:		
Cash	$ (7,613)	$ 3,705
Short term investments	(8,083)	(10,144)
Accounts receivable	2,293	841
Recoverable income taxes	(1,603)	1,518
Inventories	6,360	4,380
Prepaid expenses	2,191	232
Total	(6,455)	532
(Increase) decrease in current liabilities:		
Bank indebtedness	(2,539)	(3,639)
Notes payable	(2,705)	(13,500)
Accounts payable and accrued liabilities	(2,411)	(612)
Income taxes	909	2,431
Other taxes	201	(1,847)
Dividends payable	2,179	3
Total	(4,366)	(17,164)
Decrease in working capital	$ 10,821	$ 16,632

CANADIAN BREWERIES LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year Ended June 30 1973	1972
Working capital was increased by:		
Earnings before extraordinary items	$ 6,225	$ 8,630
Depreciation	8,964	8,870
Other items not requiring working capital	(1,009)	1,084
Working capital from operations	14,180	18,584
Proceeds on sale of surplus land $7,869 less mortgage assumed $7,000	869	—
Proceeds on disposal of—property, plant and equipment	1,253	1,917
—investments and other assets	1,508	9,938
Reduction of investment in associated companies	—	7,635
	17,810	38,074
Working capital was decreased by:		
Purchase of subsidiary companies for $10,391 cash (1972—$28,545) less working capital at acquisition $4,253 (1972—$6,514) (Note 2)	6,138	22,031
Additions to property, plant and equipment	14,821	16,292
Extraordinary charges (Note 5)	154	2,005
Dividends paid to shareholders—preference	2,164	2,171
—common	2,176	8,705
Dividend paid by subsidiary company to minority shareholder	161	—
Retirement of long term debt	2,911	3,350
Purchase of preference shares	106	152
	28,631	54,706
Decrease in working capital	(10,821)	(16,632)
Working capital at beginning of year	68,866	85,498
Working capital at end of year	$ 58,045	$ 68,866

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

(in thousands of dollars)

	June 30	
ASSETS	**1973**	**1972**
Current Assets		
Cash	$ 6,507	$ 14,120
Short term investments, at cost which approximates market value	25,216	33,299
Accounts receivable	28,821	26,528
Recoverable income taxes	2,995	4,598
Inventories (Note 6)	49,838	43,478
Prepaid expenses	5,892	3,701
Total Current Assets	119,269	125,724
Property, Plant and Equipment, at cost (Note 7)	255,765	239,992
Less accumulated depreciation	119,099	111,850
	136,666	128,142
Investments and Other Assets (Note 8)	18,243	15,910
Goodwill, at cost (Notes 1 and 2)	11,677	8,811
	$285,855	$278,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness	$ 7,364	$ 4,825
Notes payable	16,205	13,500
Accounts payable and accrued liabilities	24,796	22,385
Income taxes	1,075	1,984
Other taxes	11,244	11,445
Dividends payable	540	2,719
Total Current Liabilities	61,224	56,858
Long Term Debt (Note 9)	37,857	41,210
Total Liabilities	99,081	98,068
Deferred Income Taxes	14,745	14,904
Minority Interest (Notes 1 and 2)	3,254	2,413
Shareholders' Equity		
Capital Stock (Note 10)		
Preference shares	44,474	44,624
Common shares	78,357	78,357
	122,831	122,981
Retained earnings	45,944	40,221
Total Shareholders' Equity	168,775	163,202
	$285,855	$278,587

Approved on Behalf of the Board
J. H. Devlin, *Director*
W. Tennyson, *Director*

Notes to Consolidated Financial Statements

JUNE 30, 1973 AND 1972

1. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The principal operating subsidiaries are listed on page 20. Purchase accounting has been followed for all acquisitions and the results of operations of subsidiaries have been included from the dates they were acquired.

Minority interest in earnings of subsidiaries amounting to $156,000 in 1973 (1972—$107,000) has been included in administrative and general expenses.

Goodwill, being the excess of the cost of shares of certain subsidiaries over the book value of their underlying net tangible assets at the time of acquisition, is not being amortized.

Foreign currency accounts have been translated to Canadian dollars as follows: current accounts at exchange rates in effect at June 30; other balance sheet accounts and depreciation expense at historical rates; income and other costs at average rates for the year. The resulting translation gain of $3,673,000 (1972—$283,000), of which $3,265,000 (1972—$813,000) relates to short term investments, is included in investment and other income.

Certain June 30, 1972 items have been reclassified to conform with the Company's current financial statement presentation.

2. Acquisitions:

The Company purchased all of the outstanding shares of Growers' Wine Company Limited effective February 1, 1973 for $10,391,000 cash. The excess of the purchase price over the book value of the net tangible assets acquired amounted to $2,020,000 and has been included in goodwill in the consolidated balance sheet. These shares were then sold, at cost, to Jordan Valley Wines Limited (formerly Gramercy Holdings Limited) for additional shares of Jordan thereby increasing the Company's interest in the combined wine operations to 83.8 percent, and increasing the amount of goodwill on acquisition of Jordan shares by $846,000.

During the 1972 fiscal year the Company purchased all of the outstanding shares of Star Oil & Gas Ltd., Doran's Northern Ontario Breweries Limited and Doran's Beverage Company Limited and 75 percent of the outstanding shares of Jordan Valley Wines Limited for $28,545,000 cash, of which $8,596,000 has been included in goodwill.

3. Subsequent event:

On July 13, 1973 a decision was announced to discontinue operations at the Atlanta brewery by September 15, 1973 and dispose of the related facilities. It is not possible at this time to determine the amount which will be realized on disposal of the plant and accordingly no adjustment has been made to the book value of $4,937,000 at June 30, 1973. A provision of $300,000 for non-recurring closing costs has been recorded as an extraordinary charge against earnings for the year ended June 30, 1973.

4. Income taxes:

The income tax provision reflects the lower tax rate on Canadian manufacturing and processing profits from January 1, 1973, and the effect of certain non-taxable income items.

The provision for income taxes also has been reduced by income tax credits arising from losses incurred on operations in the United States. These credits result from recovery of taxes paid in prior years and a drawdown of deferred income taxes. If further losses should occur in future years in United States operations, full credit for income taxes may not be available.

5. Extraordinary items:

	1973	1972
Net gain on the sale of surplus land	$ 3,949,000	$ —
Provision of $300,000 for Atlanta brewery closing costs less income taxes of $146,000 (Note 3)	(154,000)	—
Loss of $2,654,000 on disposal of inventory of keg bottles following Government requests to withdraw the bottle from distribution less income taxes of $1,276,000	—	(1,378,000)
Provision of $818,000 for flood loss less income taxes of $392,000	—	(426,000)
Remaining costs of $386,000, arising from closing the Cleveland brewery in 1971, less income taxes of $185,000	—	(201,000)
	$ 3,795,000	$(2,005,000)

6. Inventories:

	1973	1972
Beverage products, finished and in process	$29,209,000	$25,295,000
Materials and supplies	9,874,000	8,875,000
Containers	10,755,000	9,308,000
	$49,838,000	$43,478,000

Inventories of beverage products and materials and supplies are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

7. Property, plant and equipment:

	1973		1972	
	Assets	Accumulated Depreciation	Assets	Accumulated Depreciation
Land	$ 7,034,000	$ —	$ 6,761,000	$ —
Buildings	81,231,000	27,772,000	77,473,000	26,150,000
Machinery, furniture and fixtures	141,190,000	84,700,000	132,580,000	79,780,000
Motor vehicles	9,692,000	5,118,000	7,959,000	4,998,000
Oil and gas properties	14,354,000	963,000	13,336,000	549,000
Leasehold improvements	2,264,000	546,000	1,883,000	373,000
	$255,765,000	$119,099,000	$239,992,000	$111,850,000

Depreciation is provided generally on the straight-line basis over the estimated service lives of the assets.

The costs of acquiring interests in developed and undeveloped oil and gas properties and the development costs of productive wells are capitalized. Producing property costs are amortized using the unit of production method over the estimated recoverable oil and gas reserves. Lease rentals, other carrying costs and dry hole costs are charged to expense as incurred. The costs of properties which are abandoned are written off.

8. Investments and other assets:

	1973	1972
Mortgages and long term receivables	$13,394,000	$ 6,898,000
Sundry properties	1,809,000	6,014,000
Deferred charges, investment in associated companies and other	3,040,000	2,998,000
	$18,243,000	$15,910,000

Investments and other assets are recorded at cost, amortized cost or estimated realizable value.

9. Long term debt:

	1973	1972
Sinking fund debentures payable in either Canadian or U.S. funds, at par, at the option of the holder:		
Series A $4\frac{3}{4}\%$ due January 15, 1979	$ 2,495,000	$ 3,143,000
Series B $4\frac{1}{4}\%$ due January 15, 1981	5,512,000	6,042,000
Sinking fund debentures payable in Canadian funds:		
Series C 5% due January 15, 1983	5,512,000	5,991,000
Series D $5\frac{1}{2}\%$ due April 1, 1986	9,472,000	10,375,000
Series E $5\frac{1}{2}\%$ due April 1, 1989	14,979,000	15,659,000
	37,970,000	41,210,000
Less amount included in current liabilities	113,000	—
	$37,857,000	$41,210,000

The remaining sinking fund payments required for the years 1975 through 1978 are as follows: 1975—$3,057,000; 1976—$3,800,000; 1977—$3,800,000; 1978—$3,800,000.

10. Capital stock:

Details of authorized and issued capital stock are as follows:

	1973	1972
Authorized		
889,485 preference shares with a par value of $50 each, issuable in series		
30,001,260 common shares without par value		
Issued		
433,745 $2.20 cumulative redeemable preference shares, Series A	$ 21,687,000	$ 21,687,000
455,740 $2.65 cumulative redeemable preference shares, Series B	22,787,000	22,937,000
21,762,295 common shares	78,357,000	78,357,000
	$122,831,000	$122,981,000

The Series A and B preference shares are redeemable at $53.00 and $52.50 per share respectively. During the year ended June 30, 1973, 3,000 Series B shares were purchased for cancellation (1972—4,180 shares).

Under the Company's Stock Option Plan established in 1963 for executives of the Company and its subsidiaries, there were outstanding options on 33,500 common shares at June 30, 1973, (1972—53,000 shares), exercisable up to November 11, 1973 at $9.74 per share in Canada and $9.15 U.S. per share in the United States. An additional 466,500 common shares are reserved for use under this Plan.

Rothmans of Pall Mall Canada Limited is the beneficial owner of 50.1 percent of the Company's common shares.

11. Remuneration of Directors and Senior Officers:

Total remuneration of Directors and Senior Officers for the year was $762,000, (1972—$772,000).

12. Pensions:

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees. The cost of benefits are funded as they accrue by way of employee and at least equal company contributions. Prior service costs arising from amendments to the plans and actuarial gains and losses are taken into account by adjusting company contributions over periods approximating the remaining service lives of the employees affected. The total pension expense for the year was $3,353,000, (1972—$2,947,000).

13. Commitments and contingent liabilities:

Under a long term agreement with United Breweries Limited of Copenhagen, Denmark dated March 17, 1972, the Company obtained access to the brewing research and technical knowledge of United Breweries Limited, together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trade marks in Canada, the United States and the Republic of Ireland. Royalties are payable in fixed amounts to September 30, 1974, and thereafter are based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancelable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

Rentals payable under lease agreements expiring more than three years after June 30, 1973 approximate $1,052,000 annually. These leases are, for the most part, for periods of from four years to eight years.

The Company is committed to acquire the remaining shares of Jordan Valley Wines Limited at an undetermined future date, on terms established at the date of the initial acquisition.

Price Waterhouse & Co.

chartered accountants

P.O. Box 51 Toronto-Dominion Centre Toronto, Ont. M5K 1G1

August 15, 1973.

Auditors' Report

To The Shareholders of Canadian Breweries Limited:

We have examined the consolidated statements of earnings, retained earnings and changes in financial position of Canadian Breweries Limited and its subsidiary companies for the year ended June 30, 1973 and the consolidated balance sheet as at that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the determination of the amount which will be realized on disposal of the Atlanta brewery, as explained in Note 3, these consolidated financial statements present fairly the results of operations and the changes in financial position of the companies for the year ended June 30, 1973, and their financial position as at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

CANADIAN BREWERIES LIMITED

AND SUBSIDIARY COMPANIES

FIVE-YEAR FINANCIAL SUMMARY

(in thousands of dollars)

For Fiscal Years Ended	June 30				April 30
	1973	1972	1971	1970	1969
Results for the Year:	$	$	$	$	$
Sales	412,603	404,779	396,210	408,651	400,610
Excise and sales taxes	148,589	147,905	145,214	148,218	146,646
Sales excluding taxes	264,014	256,874	250,996	260,433	253,964
Operating costs	251,917	234,837	228,466	235,010	224,847
Investment and other income	8,859	5,681	5,509	6,565	7,806
Interest expense	3,374	2,938	2,687	2,567	2,810
Depreciation and amortization	8,964	8,870	7,924	7,350	7,726
Earnings before income taxes	8,618	15,910	17,428	22,071	26,387
Income taxes	2,393	7,280	8,887	10,783	11,948
Extraordinary charges (credits) less applicable income taxes	(3,795)	2,005	2,551	68	(875)
Net earnings	10,020	6,625	5,990	11,220	15,314
Dividends paid—preference	2,164	2,171	2,185	2,196	2,257
—common regular	2,176	8,705	8,705	8,705	8,705
—common special	—	—	—	21,762	—
Net earnings per common share	36¢	20¢	17¢	41¢	60¢
Dividends per common share	10¢	40¢	40¢	$1.40	40¢
Year end position:					
Cash and short term investments	31,723	47,419	53,858	19,722	49,572
Less: Bank indebtedness and notes payable	23,569	18,325	1,186	—	—
	8,154	29,094	52,672	19,722	49,572
Other current assets	87,546	78,305	71,334	64,756	57,740
Less: Other current liabilities	37,655	38,533	38,508	38,768	31,819
Working capital	58,045	68,866	85,498	45,710	75,493
Property, plant and equipment—net	136,666	128,142	106,389	108,172	99,923
Investments and other assets	18,243	15,910	33,804	80,110	81,025
Goodwill	11,677	8,811	215	—	—
Less: Long term debt	37,857	41,210	45,069	48,580	49,300
Deferred income taxes	14,745	14,904	13,232	12,808	11,760
Minority interest	3,254	2,413	—	—	—
Capital employed (shareholders' equity)	168,775	163,202	167,605	172,604	195,381
Current ratio	1.9	2.2	3.2	2.2	3.4
Percentage return on capital employed	5.9	4.1	3.6	6.5	7.8
Preference share capital	44,474	44,624	44,833	44,969	45,296
Book value per common share	$5.71	$5.45	$5.64	$5.86	$6.90

FINANCIAL REVIEW

Earnings Analysis
(in thousands of dollars)

	Earnings 1973	Earnings 1972	% Return on Sales 1973	% Return on Sales 1972	% Return on Capital Employed 1973	% Return on Capital Employed 1972
Brewing Operations:						
Canada	$ 5,953	$7,112	2.6	3.0	7.4	8.9
United States	(4,593)	(772)	(3.2)	(.5)	(8.9)	(1.8)
Ireland	499	360	3.3	2.8	5.0	4.9
Total Brewing Operations	1,859	6,700	.5	1.7	1.3	5.1
Wine	515	322	3.6	8.9	2.6	6.6
Oil and gas (1972—14 month period)	224	263	14.1	15.2	1.6	1.7
International	276	170				
Investment and other income	4,374	2,312			17.9	5.1
Long term debt interest	(1,023)	(1,137)				
Net earnings before extraordinary items	6,225	8,630	1.5	2.1	3.7	5.3
Extraordinary items	3,795	(2,005)	.9	(.5)		
NET EARNINGS	$10,020	$6,625	2.4	1.6	5.9	4.1

Analysis of Sales
(in thousands of dollars)

	1973 Amount	1973 %	1972 Amount	1972 %
Brewing:				
Canada	$233,209	56.5	$234,412	57.9
U.S.A.	143,905	34.9	150,969	37.3
Ireland	15,214	3.7	12,819	3.2
Total	$392,328	95.1	$398,200	98.4
Wine	18,689	4.5	4,845	1.2
Oil and Gas	1,586	.4	1,734	.4
	$412,603	100.0	$404,779	100.0

Analysis of Beverage Sales Dollar

	1973	1972
Taxation	$0.38	$0.39
Materials and manufacturing expenses	0.27	0.26
Salaries, wages and fringe benefits	0.17	0.16
Marketing, distribution, administrative and other expenses	0.15	0.15
Depreciation	0.02	0.02
Earnings before extraordinary items	0.01	0.02
	$1.00	$1.00

Principal operating subsidiary companies:	CANADA THE BENNETT BREWING COMPANY, LIMITED CALGARY BREWING AND MALTING COMPANY LIMITED THE CARLING BREWERIES LIMITED DORAN'S NORTHERN ONTARIO BREWERIES LIMITED O'KEEFE BREWING COMPANY LIMITED WILLIAM DOW BREWERY LIMITED GROWERS' WINE COMPANY LIMITED JORDAN WINES LIMITED STAR OIL & GAS LTD. UNITED STATES CARLING BREWING COMPANY INCORPORATED CENTURY IMPORTERS INC. REPUBLIC OF IRELAND BEAMISH & CRAWFORD LIMITED

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Bankers:	BANK OF MONTREAL THE ROYAL BANK OF CANADA CHEMICAL BANK–NEW YORK
Registrars:	IN CANADA MONTREAL TRUST COMPANY IN THE UNITED STATES MORGAN GUARANTY TRUST COMPANY OF NEW YORK
Transfer Agents:	IN CANADA NATIONAL TRUST COMPANY, LIMITED Ontario, Quebec, Manitoba, Alberta and British Columbia CANADA PERMANENT TRUST COMPANY New Brunswick and Nova Scotia THE CANADA TRUST COMPANY Saskatchewan IN THE UNITED STATES THE CHASE MANHATTAN BANK

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